

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Competitive Product Prices  
Priority Mail  
Priority Mail Contract 400

Docket No. MC2018-75

Competitive Product Prices  
Priority Mail Contract 400 (MC2018-75)  
Negotiated Service Agreement

Docket No. CP2018-116

PUBLIC REPRESENTATIVE COMMENTS ON  
POSTAL SERVICE REQUEST TO ADD PRIORITY MAIL CONTRACT 400 TO THE  
COMPETITIVE PRODUCT LIST

(January 2, 2018)

**I. Introduction**

The Public Representative hereby provides comments pursuant to the Commission Notice initiating this docket.<sup>1</sup> In that Notice, the Commission established the docket referenced above to receive comments from interested persons, including the undersigned Public Representative, on the Postal Service's request to add Priority Mail Contract 400 to the competitive product list.<sup>2</sup>

Under 39 U.S.C. § 3642(b) the criteria governing Commission review are whether the product (1) qualifies as market dominant, (2) is covered by the postal monopoly and therefore precluded from classification as a competitive product, and (3) reflects certain market considerations, including private sector competition, the impact on small businesses, and the views of product users.

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<sup>1</sup> PRC Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, December 21, 2017 (Notice).

<sup>2</sup> Request of the United States Postal Service to Add Priority Mail Contract 400 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, December 20, 2017 (Request).

Pursuant to 39 U.S.C. § 3633(a), the criteria for the Commission's review are that the Postal Service's competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service.

## **II. Comments**

The Public Representative has reviewed the Postal Service's Request, Statement of Supporting Justification, attached contract, Certification of Compliance with 39 U.S.C. § 3633(a), and proposed revised changes to the Mail Classification Schedule (MCS). The Public Representative has also reviewed the supporting financial models for the contract filed separately under seal.

The Postal Service makes a number of assertions that address the requirements of section 3642(b). Request, Attachment D. These assertions appear reasonable. The Public Representative concludes that the Priority Mail Contract 400 satisfies the criteria of section 3642(b), concerning the classification of new competitive products.

Based upon a review of the financial model and the contract filed under seal with the Request, it appears that the negotiated prices should generate sufficient revenues to cover costs during the first year of the contract, and therefore comply with the requirements of 39 U.S.C. § 3633(a). The contract is expected to remain in effect for a period of three years though. The Postal Service does demonstrate that the contract will comply with the requirements of 39 U.S.C. § 3633(a) during the second and third years of the contract. This concern is largely mitigated by the fact that the terms of the contract provide a formula to annually adjust contract prices in relation to price changes of Priority Mail, Commercial Plus. Provided the relation between revenues and

costs for the partner's profile in comparison with Priority Mail, Commercial plus, which exists in the first contract year, remains relatively constant in years two and three, the proposed price adjustment mechanism should permit revenues to cover costs during those contract years. In addition, the Commission has an opportunity to conduct an annual compliance review in its Annual Compliance Determination.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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